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Quarterly Update

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Report Highlights:

Forecast wheat production remains unchanged at 21.1 MMT, despite planted area falling significantly. Barley production is forecast to increase slightly to 8.5 MMT, although planted area remains unchanged. Forecast sorghum production for 2008/09 remains unchanged at 1.9 MMT. Rice production for 2008/09 is forecast at a record low 50,000 MT.

Includes PSD Changes: No
Includes Trade Matrix: No
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SECTION ONE: SITUATION AND OUTLOOK

General

Sowing has now completed for the Australian winter cereal crop (wheat and barley). With the exception of abandonment, Post does not anticipate production area of winter cereal crops to change.

Production levels of winter cereal in Australia for the 2007/08 harvest will be primarily driven by weather conditions in August and September (in the inland areas where these crops are grown), a typical "do-or-die" time for Australian winter cereal production. Cool, wet conditions during this time would effectively extend the growing season and allow for maximum "crop-fill" – greatly increasing yields. However, hot and dry conditions during this period would effectively cut the growing season short, greatly reducing yield.

Planting of rice and sorghum will not likely occur until October and November. As rice is grown under intense irrigation, the primary driver of rice production is weather events affecting the catchment areas in the lead up to planting the rice crop. Sorghum production, which is mostly dryland, will be largely determined by weather conditions leading up to planting, and for some time after.

Production levels of both winter cereal and summer crops will be largely determined by conditions to be experienced in August, September and October.

Weather Conditions

The majority of Australia's grain growing regions have received valuable rainfall in the second half of June, with some follow-up rain in the first half of July. This rain, which was relatively heavy in some areas, has provided near ideal crop conditions in northern Victoria and southern NSW. All other areas have also received useful, although somewhat lesser, rain. Until this rainfall was received, most of Australia's winter and summer cropping areas were suffering extreme drought.

More recently, heavy frosts have been recorded in the eastern states of Australia. This has been blamed for delaying crop development somewhat. However, most sources report the crop to be "running-on-time" in terms of its development cycle.

Heavy rainfall in eastern Australia, where some of the best rainfall has been received, has not been sufficient to improve the outlook for irrigated crops such as rice, and a small percentage of the sorghum crop which is grown under irrigation.

The primary effect of recent heavy rainfall has been to lift expectations of winter cereal production following years of extreme drought.

Irrigation water supplies

At the time of writing this report, the major catchment areas in south east Australia have received heavy rainfall. Soil moisture in these areas is now high, and rainfall has now begun to recharge depleted irrigation water storages. However, water storages remain at historically low levels and further heavy falls of rain will be required before irrigation allocations will improve.

Government reports concerning irrigation water reserves show that any increase in water availability will likely, in the first instance, be made available for uses other than broad acre

crop production (rice, cotton, grain etc). Regional towns, livestock, industry and environmental requirements all receive priority over broad acre crop production. At this point in time, there is almost enough water left in the system to account for these non-agricultural uses.

Assuming inflows into the system over the next three months are sufficient to continue to increase water storage levels, the first agricultural users to receive water will be those who have "carry over" water allocations, or those who had water entitlement "suspended" during trade. Assuming those needs are met, the next users will be "high security" water users – typically tree and vine fruit producers (citrus, stone fruit, viticulture etc). The last group to receive irrigation water will likely be broad acre agricultural users who are considered general allocation (rice, cotton etc).

Much more rain will be required before forecast production of irrigated crops such as rice can be expected to surpass Post forecasts.

Wheat Production

Forecast wheat production remains unchanged at 21.1 MMT, despite planted area falling significantly. Late rain in some key growing areas, particularly in the northern part of Western Australia, prevented some areas from being sown. Sources report that much of what was successfully sown in these areas was sown dry, prior to rain. Where planted area was mostly constrained are traditionally lower yielding and more marginal areas.

Recent heavy rainfall in Victoria and southern NSW has seen yield potential increase to historically high levels. This, combined with greater planted area than previously anticipated has minimized the reduction in total production.

Barley Production

Barley production is forecast to increase slightly to 8.5 MMT, although planted area remains unchanged. Despite late planting rains, Post believes barley area has held firm at 4.67 million hectares, while forecast wheat production has fallen. Barley, a shorter season crop, has traditionally improved its share of total planted area with late planting rains.

Post anticipates that in areas where it was too dry to plant barley, and planted area fell below previous forecasts, long term yields were typically lower than the national average. Therefore, the effect of a lower planted area may not be as significant as first thought. Furthermore, yield increases in areas where barley has been successfully planted, has more than offset declines in areas where barley could not be planted.

Sorghum Production

Forecast sorghum production for 2008/09 remains unchanged at 1.9 MMT. Area and yield also remain unchanged. Post advises that over the next three months, in the lead-up to planting, weather conditions will be critical to planted area and production.

If achieved, a forecast of 1.9 MMT would represent slightly above average production. Post has assumed average weather conditions in the lead up to planting to 2008/09 crop (October onwards) however high grain prices, due to extremely low stocks, will likely see production pushed slightly above average levels.

Rice Production

Rice production for 2008/09 is forecast at a record low 50,000 MT, down sharply on the previous forecast. The forecast planted area has also been slashed to record low levels in line with production. The crop, which will be planted in October, will require average rainfall from now until December to reach this record low forecast. A return to drought conditions could see this number fall lower. The sharp downward shift in forecast production has been driven by an extreme lack of irrigation water and poor expectations for "general allocations" which are largely used to grow rice.

Excellent rains have been received in both catchment and cropping areas. However, irrigation water storages remain at historically low levels. According to government reports, there is only a 50 percent chance of gaining enough water to allocate "any" irrigation water to general allocation users by September 1. However, the same reports quote a 50 percent chance of receiving "full" allocation by November 1.

Policy

A recent policy determination by the Government of Australia (GOA) has seen the single desk marketing arrangements largely maintained with some minor adjustments (see GAIN report AS 7034 and previous). For the 2007/08 season, AWBI will manage and market bulk exports of wheat. However, the power to veto export applications from non-AWBI exporters will remain with the Agriculture Minister. The removal of the veto from AWBI, which first occurred in December 2006, (see GAIN report AS 6079) may result in additional non-AWBI exports, although only two non-AWBI shipments have been approved out of 78 applicants (see GAIN report 6081).

The Government of Australia has given wheat growers until March 1 2008 to develop a new wheat marketing model to manage and export the national pool. In response, growers have formed the "Wheat Export Marketing Alliance" (WEMA) which will attempt to provide an alternative model to the current AWBI. AWB Limited (the parent company of AWBI), has shelved its de-merger plans which were also intended to provide a different model. Instead, AWBI will create a separate grower owned and controlled company.

The recent changes to wheat marketing in Australia include deregulated exports of bagged and containerized wheat. Industry sources suggest that this change will likely see increases in these exports from the small levels now to as high as 10 percent of total wheat exports.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:

<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS7040	FAIRS Country Report	07/31/07
AS7039	Senate Committee Completes Inquiry into NZ Apple Decision	07/09/07
AS7037	New Import Risk Analysis Process Becomes Law	06/28/07
AS7036	Agricultural Biotechnology Annual	06/28/07
AS7035	Ag Down Under Vol. 7, 2007	06/22/07
AS7034	Parliament Passes Legislation to Amend Wheat Marketing in Australia	06/22/07
AS7033	"Australian Grown" Logo Launched	06/22/07
AS7032	Biofuels Annual	06/08/07
AS7030	Dairy Semi-Annual	05/17/07
AS7029	Soybeans Approved for Import	05/14/07
AS7028	Ag DownUnder Vol. 6, 2007	05/11/07
AS7026	Cotton Annual	04/26/07
AS7025	Senate To Hold Inquiry Into NZ Apple Decision	04/19/07
AS7024	AWB Shareholders Sue for A\$25m	04/18/07